

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10
L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11
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FM AMEMBASSY DACCA
TO SECSTATE WASHDC PRIORITY 680

C O N F I D E N T I A L SECTION 1 OF 2 DACCA 5439

PASS AID

E.O. 11652: GDS
TAGS: PEPR SPOP BG
SUBJECT: CONVERSATION WITH PRESIDENT ZIA: DEVELOPMENT ISSUES

SUMMARY: DURING A RELAXED DISCUSSION OF DEVELOPMENT MATTERS WITH PRESIDENT ZIA ON SEPTEMBER 7, I HAD THE OPPORTUNITY TO DISCUSS OUR OBJECTIVES IN OUR TITLE III, FERTILIZER, AND ASHUGANJ PROGRAMS AND POINT OUT THE URGENT NEED FOR THE GOVERNMENT OF BANGLADESH TO IMPORT MORE FERTILIZER AND COMPLETE THE ASHUGANJ PROJECT ON SCHEDULE. DURING A DISCUSSION OF THE BURDEN OF LOCAL FINANCING, THE PRESIDENT SAID THAT EVENTUALLY HE MUST EITHER ELIMINATE URBAN FOOD RATIONING FOR ALL BUT THE VERY POOR OR CUT IT OUT ENTIRELY; HE AGREED THAT THE OPEN MARKET SALES PROGRAM WOULD HELP HIM BRING THIS ABOUT. END SUMMARY.

1. DURING AN HOUR-LONG CONVERSATION WITH PRESIDENT ZIA AT HIS RESIDENCE ON SEPTEMBER 7, I HAD ANOTHER OPPORTUNITY TO DISCUSS AID ISSUES WITH HIM. I STARTED OFF BY TELLING HIM THAT DURING MY WASHINGTON CONSULTATIONS I HAD FOUND GENERAL SATISFACTION WITH OUR AID PROGRAMS IN BANGLADESH. I THEN REVIEWED THREE AGREEMENTS WHICH I HAD RECENTLY SIGNED, USING THE OPPORTUNITY TO EMPHASIZE
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OUR OBJECTIVES IN EACH. THE LARGE TITLE III AGREEMENT HAD BEEN MADE POSSIBLE BY THE BDG PRICE STABILIZATION PROGRAM: PROCUREMENT TO KEEP PRICES UP AND OPEN MARKET SALES TO KEEP THEM DOWN. I HAD DISCUSSED THIS PROGRAM IN JUNE WITH ZIA AND THE CLEARLY UNDERSTANDS ITS NATURE. I EXPLAINED THAT OUR FERTILIZER AGREEMENT WAS DESIGNED TO GET FERTILIZER TO THE POOR FARMERS AND WOULD BE EFFEC-

TIVE ONLY IF SUPPLIES WERE ADEQUATE. HERE I NOTED A PROBLEM. THE VERY SUCCESS OF THE GOVERNMENT'S EFFORTS TO INDUCE GREATER FERTILIZER USE HAD CREATED GREATER DEMAND THAN ANTICIPATED AND CONSEQUENT SHORTAGE AND BLACK MARKETING. IF THE POOR FARMER WAS TO BUY FERTILIZER AND IF THE U.S. WAS TO MEET ITS CRITERIA (I NOTED CLOSE CONGRESSIONAL INTEREST), THE BDG SHOULD EITHER SEEK MORE FERTILIZER FROM DONORS OR BUY SOME WITH FOREIGN EXCHANGE. WE HAD MADE THIS SUGGESTION TO THE PLANNING COMMISSION. IN HIS USUAL MANNER, ZIA DID NOT COMMENT DIRECTLY ON MY PROPOSAL BUT NOTED THAT SINCE BANGLADESHI FARMERS, SMALL AND LARGE, HAD LEARNED THAT THEY GOT THREE TO FOUR TIMES THE VALUE OF THEIR FERTILIZER IN THEIR CROPS, THEY HAVE HAD A STRONG INCENTIVE TO USE IT. BANGLADESH, HE SAID, NOW USED ONLY 700,000 TONS OF FERTILIZER PER YEAR; IT SHOULD BE USING A MILLION AND A HALF TONS.

2. I WENT ON TO MENTION OUR SUPPLEMENTAL AGREEMENT ON ASHUGANJ, OBSERVING HOW IMPORTANT I BELIEVED IT WAS FOR BANGLADESH TO PRODUCE ITS OWN FERTILIZER. I NOTED THAT MANAGEMENT PROBLEMS HAD BEEN ONE CAUSE OF DELAYS AND COST OVERRUNS FOR THIS BANK PROJECT AND SAID THAT THIS TIME IT WOULD BE COMPLETED ON SCHEDULE; I DOUBTED THAT THE USG WOULD BE ABLE TO MEET ANY FURTHER INCREASES IN COSTS. ZIA AGREED WITH THE IMPORTANCE OF ASHUGANJ AND

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TALKED FOR A TIME ABOUT THE DIFFICULTIES HE FACES IN IMPROVING THE QUALITY OF GOVERNMENTAL ADMINISTRATION AND THE MODERATE SUCCESS WHICH HE IS HAVING.

3. WHILE WE WERE DISCUSSING DEVELOPMENT, THE PRESIDENT, AS HE HAD PREVIOUSLY, MENTIONED THE DIFFICULTY THEY HAVE WITH LOCAL FINANCING. TAXES, HE SAID, HISTORICALLY HAD NEVER BEEN HIGH IN BANGLADESH BUT HIS GOVERNMENT HAD TAKEN STEPS TO INCREASE REVENUES. HE MENTIONED THE REDUCTION OF FERTILIZER SUBSIDIES AND THE INCREASE IN RAILWAY AND AIR FARES. I SAID THAT HIS FOOD SUBSIDIES WERE VERY EXPENSIVE. HE AGREED BUT SAID DURING THE LAST TWO YEARS THEY HAVE RAISED THE RATION PRICE OF RICE SUBSTANTIALLY. I NOTED THAT THEY HAD ALSO RAISED THE PROCUREMENT PRICE SO THAT THERE HAD BEEN NO REVENUE BENEFIT. HE NODDED AGREEMENT AND DESCRIBED THE PROBLEM CREATED BY THE LONG USE OF FOOD FOR POLITICAL PURPOSES IN BANGLADESH AND THE DIFFICULTIES INVOLVED IN CHANGING THIS SYSTEM. EVENTUALLY, HE SAID, THEY WOULD HAVE TO DO ONE OF TWO THINGS WITH THE URBAN RATIONING SYSTEM. THEY WOULD EITHER HAVE TO RESERVE RATIONING FOR ONLY THE POOREST PEOPLE OR THEY WOULD HAVE TO ELIMINATE IT ENTIRELY.

I SAID THAT I THOUGHT THE OPEN MARKET SALES SYSTEM MIGHT KEEP PRICES DOWN AND ASSIST THEM IN THE ELIMINATION OF FOOD SUBSIDIES. HE AGREED. HE ALSO NOTED THAT FOOD SUBSIDIES BENEFITED THE RICH AND THEIR ELIMINATION WOULD HURT THEM ONLY A LITTLE.

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C O N F I D E N T I A L SECTION 2 OF 2 DACCA 5439

PASS AID

4. THE PRESIDENT AGAIN REVIEWED SOME OF HIS AMBITIOUS DEVELOPMENT PLANS. HE SAID THAT THEY EXPECTED TO INCREASE FOOD PRODUCTION IN THE NORTHERN PARTS OF BANGLADESH BY SOME 400,000 TONS THIS YEAR; INCREASES WOULD BE LARGELY IN WHEAT. HE ALSO NOTED PLANS TO INCREASE PRODUCTION IN THE SOUTHERN DISTRICTS OF BARISAL AND PATUAKHALE BY TWO MILLION TONS OVER THE NEXT SEVERAL YEARS. HE CLAIMED THEY HAD SIMILAR PLANS FOR THE REST OF THE COUNTRY.

5. THROUGHOUT MY CONVERSATION THE PRESIDENT FOUND OPPORTUNITIES TO EXPRESS APPRECIATION FOR OUR HELP AND AT ITS CONCLUSION HE MADE A SPECIAL EFFORT TO EXPRESS HIS GRATITUDE.

6. COMMENT: AS MY DISCUSSIONS WITH ZIA HAD PROCEEDED, I HAVE FOUND IT EASY TO DISCUSS DEVELOPMENT ISSUES WITH HIM. THIS IS THE SUBJECT HE ORDINARILY CHOOSES WHEN HE INITIATES CONVERSATIONS AND IT IS ONE WHICH CLEARLY PREOCCUPIES HIM. WHILE HE MUST DEVOTE MUCH ATTENTION TO POLITICS, THE OBJECTIVE OF HIS EFFORTS SEEMS TO BE DEVELOPMENT. I BELIEVE HE HEARS THE SUGGESTIONS WHICH I MADE BUT I DO NOT YET KNOW THE EXTENT TO WHICH THEY INFLUENCE HIS OPINIONS AND THE ACTIONS OF HIS GOVERNMENT.

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ABLE TO FATHOM IS THE EXACT NATURE OF THE LINKAGES BE-
TWEEN THE PRESIDENT AND HIS MINISTERS AND GOVERNMENT
SECRETARIES. I WILL CONTINUE THESE PERIODIC DISCUSSIONS
AND WE WILL LOOK FOR EVIDENCE OF THEIR EFFECT.
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